

**SPURWINK / RI  
REPORT ON CONTRACT COMPLIANCE  
CALENDAR YEAR 1997**

**DEPARTMENT OF ADMINISTRATION  
BUREAU OF AUDITS  
ONE CAPITOL HILL  
PROVIDENCE, RI 02908-5889**



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Administration  
BUREAU OF AUDITS  
One Capitol Hill  
Providence, R.I. 02908-5889  
TDD #: 222-2726  
FAX #: 222-3973

Spurwink / RI

REPORT ON CONTRACT COMPLIANCE

Calendar Year 1997

EXECUTIVE SUMMARY

The prior audit report for Spurwink / RI, issued August 16, 1994 by the Bureau of Audits, cited one recommendation that has been implemented.

Based on our contract compliance engagement for the calendar years 1993 through 1997, we determined the following:

1. A net settlement of \$12,372 is due to the Department of Human Services from the Provider as a result of excess per diem rates for the period under review.
2. There were excess funds of \$16,303 in the Provider's Waiver Program that should be recovered by the Department of Mental Health, Retardation and Hospitals or reprogrammed in accordance with applicable contract provisions and policy.
3. MHRH should review a related party consultant agreement entered into by the provider to determine if the services provided are reasonable and allowable based on the contracts between MHRH and the Provider. If it is determined that the services are allowable, MHRH should ensure that the provider has adequate controls in place to monitor and document related party transactions.
4. MHRH should review a personal service arrangement entered into by the Provider to determine if it is allowable based on the contracts between MHRH and the Provider.

SPURWINK / RI  
CALENDAR YEAR 1997

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October 10, 2000

Ms. Christine Ferguson, Director  
Department of Human Services  
600 New London Avenue  
Cranston, RI 02920

Dear Ms. Ferguson:

We have examined the cost report submitted by Spurwink / RI, for the following DHS Funded Intermediate Care Facility for the Mentally Retarded (ICF/MR) for the calendar year 1997:

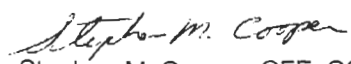
<u>Facility</u>	<u>License Number</u>
Seven Mile Road	163

This report represents the audited Cost Report the year ended December 31, 1997. For settlement purposes this report includes calendar years 1993 through 1996.

The findings and recommendations included herein have been discussed with management and we have considered their comments in the preparation of our report. Section 35-7-4 of the R.I. General Laws requires the director of the department audited to respond in writing within 60 days to all recommendations made by the Bureau of Audits. A copy of your reply should also be sent directly to Robert L. Carl, Jr., Ph.D., Director, Department of Administration; Honorable Antonio J. Pires, Chairman of the House Finance Committee; and to the Honorable J. Michael Lenihan, Chairman of the Senate Finance Committee.

We wish to express our appreciation to the officials of the Department of Human Services and to the director and staff members of Spurwink / RI, for their assistance and cooperation during the course of this engagement.

Sincerely,

  
Stephen M. Cooper, CFE, CGFM  
Chief, Bureau of Audits

SMC:pb



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October 10, 2000

Ms. A. Kathryn Power, Director  
Department of Mental Health, Retardation and Hospitals  
600 New London Avenue  
Cranston, RI 02920

Dear Ms. Power:

We have examined the cost report submitted by Spurwink / RI, for the following MHRH funded program for the calendar year 1997:

Programs

Residential Waiver Program

This report represents the audited Cost Report the year ended December 31, 1997. For settlement purposes this report includes calendar year 1996.

The findings and recommendations included herein have been discussed with management and we have considered their comments in the preparation of our report. Section 35-7-4 of the R.I. General Laws requires the director of the department audited to respond in writing within 60 days to all recommendations made by the Bureau of Audits. A copy of your reply should also be sent directly to Robert L. Carl, Jr., Ph.D., Director, Department of Administration; Honorable Antonio J. Pires, Chairman of the House Finance Committee; and to the Honorable J. Michael Lenihan, Chairman of the Senate Finance Committee.

We wish to express our appreciation to the officials of the Department of MHRH and to the director and staff members of Spurwink / RI, for their assistance and cooperation during the course of this engagement.

Sincerely,

Stephen M. Cooper, CFE, CGFM  
Chief, Bureau of Audits

SMC:pb

SPURWINK / RI  
CALENDAR YEAR 1997

SCOPE AND PURPOSE

The purpose of this engagement was to audit the most current year cost report (1997) submitted by providers of services funded by the Department of Human Services and the Department of Mental Health, Retardation and Hospitals and make settlements for that year and also make settlements for all prior unaudited years. The review of prior unaudited years (1993 - 1996) was limited to reviewing selected accounts and making adjustments based on risk factors developed through the testing of the current year accounts, the prior field audit, prior year cost reports and sampling.

By funding source the purpose of this audit was to determine:

DHS Programs

- Whether expenses were allowable in accordance with the principles of reimbursement.
- Through the verification of census records, determine the total client days used in calculating audited per diem rates.
- If the clients' clothing funds, personal needs funds, and client wages were properly maintained in accordance with the prescribed guidelines.

MHRH Programs

- Whether expenses reported per the cost reports were in accordance with the terms of the contracts.
- Whether revenues were reported accurately on the cost reports.
- Any over or under funding on behalf of the Department of Mental Health, Retardation and Hospitals.

Our audit of DHS programs was made in accordance with the "Federal Medicare Principles of Reimbursement" issued by the Social Security Administration, Bureau of Health Insurance HIM-15 adopted by the State of Rhode Island with the exclusion of return of net equity and the approved providers' operating budgets.

Additionally, we have audited the Clients' Clothing Account Funds in accordance with the "Principles for Skilled Nursing and Intermediate Care Facilities," and the Clients' Personal Needs Funds in accordance with the "Uniform Accountability Procedures for Title XIX Patient Personal Needs Funds in Skilled Nursing and Intermediate Care Facilities."

Our audit of the financial records included verification of revenues and expenses through testing procedures, which were deemed necessary in the circumstances.

SPURWINK / RI  
CALENDAR YEAR 1997

BACKGROUND

Title 40.1-21-4 of the General Laws of the State of Rhode Island authorizes the Director of the Department of Mental Health, Retardation and Hospitals to be responsible for "planning and developing a complete, comprehensive and integrated statewide program for the developmentally disabled." Said programs may include but are not limited to: various type workshop activities, programs to alleviate and ameliorate developmental problems, physical activities, health consultation, and transportation problems.

Spurwink / RI is located at One Spurwink Place, Cranston, Rhode Island and is governed by a seven-member board of directors. The board of directors is elected at the annual meeting.





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October 10, 2000

Ms. Christine Ferguson, Director  
Department of Human Services  
Aime J. Forand Building  
600 New London Avenue  
Cranston, RI 02920

Dear Ms. Ferguson:

We have performed the procedures enumerated below, which were agreed to by the Department of Human Services (DHS) and Spurwink / RI (Provider), solely to assist the users in evaluating the Provider's assertion about their compliance with DHS's Principles of Reimbursement H.I.M.-15 to the service provider cost reports, Clients' Clothing Account Funds to DHS's Principles for Skilled Nursing and Intermediate Care Facilities and Clients' Personal Needs Funds to DHS's Procedures for Title XIX Patient Personal Needs Funds in Skilled Nursing and Intermediate Care Facilities for the calendar year 1997. Further, to provide for greater and more timely coverage we have applied an agreed-upon strategic plan to calendar years 1993 through 1996 which allows us to review and adjust these prior year cost reports based on current year findings as well as other risk factors. For settlement purposes this report includes those cost reports based on that strategic plan. This agreed-upon procedure engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

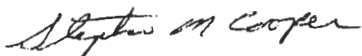
Based on the application of the procedures referred to above, we determined a final rate settlement for the ICF/MR's for the calendar years 1993-1997 with provisions of DHS's Principles of Reimbursement H.I.M.-15, and determined ending client fund balances for the calendar years 1993 through 1997 with provisions of DHS's Principles for Skilled Nursing and Intermediate Care Facilities, and Uniform Accountability Procedures for Title XIX Patient Personal Needs Funds in Skilled Nursing and Intermediate Care Facilities. These matters are discussed in the accompanying "Findings and Recommendations" section of this report.

Ms. Christine Ferguson, Director  
Page 2  
October 10, 2000

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion of assertion by the Provider's management. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of DHS and the Provider and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Sincerely,



Stephen M. Cooper, CFE, CGFM  
Bureau of Audits

SMC:pb



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October 10, 2000

Ms. Kathryn Power, Director  
Department of Mental Health, Retardation and Hospitals  
Aime J. Forand Building  
600 New London Avenue  
Providence, RI 02920

Dear Ms. Power:

We have performed the procedures enumerated below, which were agreed to by the Department of Mental Health, Retardation and Hospitals (MHRH) and Spurwink / RI (Provider), solely to assist the users in evaluating the Provider's assertion about their compliance to the financial terms and conditions contained within the Residential Waiver Program contracts during the calendar year 1997. Further, to provide for greater and more timely coverage we have applied an agreed-upon strategic plan to calendar year 1996 which allowed us to review and adjust this prior year cost report based on current year findings as well as other risk factors. For settlement purposes this report includes this cost report for calendar year 1996 based on that strategic plan. This agreed-upon procedure engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

For purposes of this engagement we made a determination as to the reasonableness of allowable costs on the "prudent person rule," accuracy of reported activities and if any overall surplus funding was provided by MHRH. Based on the application of the procedures referred to above, we became aware of an overall surplus by MHRH for the calendar year 1996 as well as costs incurred for "related party consultants" and "personal services" that have not been addressed in the Residential Waiver Program contracts. These matters are discussed in the accompanying "Findings and Recommendations" section of this report.

Ms. Kathryn Power, Director  
Page 2  
October 10, 2000

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion of assertion by the Provider's management. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of MHRH and the Provider and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Sincerely,



Stephen M. Cooper, CFE, CGFM  
Chief, Bureau of Audits

SMC:pb

## EXHIBIT A

SPURWINK / RI  
STATEMENT OF REVENUE AND EXPENSES - TOTAL  
CALENDAR YEAR 1997

<u>Account Description</u>	<u>Total</u>	<u>ICF/MR's</u>	<u>Waiver Resident Program</u>
<u>Revenues</u>			
State of Rhode Island			
Department of MHRH	\$ 3,471,302		3,471,302
Dept. of Human Services			
Room & Board	380,512	380,512	
Social Security Inc	131,977	8,298	123,679
Client Excess Earnings	3,449		3,449
Interest Income	1,296		1,296
Other			
Rental Income	2,790		2,790
PRB Distribution	66,753		66,753
Grant-Ocean State			
Charities	2,100		2,100
PRC Reimbursements	14,081		14,081
Total Revenues	\$ 4,074,260	388,810	3,685,450
<u>Expenses</u>			
Wages	\$ 2,225,015	201,135	2,023,880
Retirement	85,472	7,539	77,933
Health Insurance	318,106	26,635	291,471
Pharmacist	175	175	
Nurse	4,795		4,795
Physical Therapist	731		731
Occup. Therapist	9,008	2,549	6,459
Speech Therapist	16,920	2,805	14,115
Psychologist	1,800		1,800
Social Worker	9,165	3,150	6,015
Other			
Dietician	6,616	875	5,741
Psychiatrist	4,200	372	3,828
Management Design			
Associates	173,515	14,191	159,324
Office Supplies	17,721	1,141	16,580
Telephone	8,729	808	7,921
Travel-Motor Vehicle	37,807	3,182	34,625
Travel-Employees	41,209	397	40,812
Conventions, Meetings	5,539	448	5,091
Adv.-Help Wanted	1,455	235	1,220
Organizational Dues	12,567	1,271	11,296
Computerized Payroll			
& Data Processing	5,997	503	5,494
Accounting & Auditing	7,902	1,007	6,895
Payroll Taxes	222,040	21,260	200,780
Insurance	55,256	6,622	48,634
Clothing Allowance -			
Clients	825		825

## EXHIBIT A

SPURWINK / RI  
STATEMENT OF REVENUE AND EXPENSES - TOTAL  
CALENDAR YEAR 1997

<u>Account Description</u>	<u>Total</u>	<u>ICF/MR's</u>	<u>Waiver Resident Program</u>
<u>Expenses - Cont'd</u>			
Miscellaneous	105		105
HCPA-Provider Tax	231,062	25,400	205,662
Real Estate -			
Personal Prop. Taxes	12,597	6,256	6,341
Interest	32,585	16,669	15,916
Rent/Lease of Building	43,874	7,648	36,226
Lease of Equipment	6,890	106	6,784
Lease of Vehicles	48,376	4,786	43,590
Bulding Depreciation	14,357	7,376	6,981
Equipment Depr.	5,909	446	5,463
Fuel	6,222	1,102	5,120
Electricity	23,251	2,124	21,127
Water & Sewerage	1,867	255	1,612
Purchased Services &			
Repairs	28,339	5,687	22,652
Food & Kitchen Suppl.	56,373	6,155	50,218
Linen, Laundry Suppl.			
& Service	2,126	274	1,852
Housekeeping Supplies	6,949	365	6,584
Pharmacy Supplies	8,803	1,623	7,180
Recreational Supplies	8,252	156	8,096
Adult Day Program	<u>37,436</u>		<u>37,436</u>
Subtotal	\$ 3,847,938	382,728	3,465,210
Allocation of Administrative			
Expenses	<u>72,400</u>	<u>6,344</u>	<u>66,056</u>
Total Expenses	\$ <u>3,920,338</u>	<u>389,072</u>	<u>3,531,266</u>
Less Restricted Revenue	\$ <u>68,853</u>		<u>68,853</u>
Excess (Deficiency) of			
Revenue over Expenses	\$ <u>(85,069)</u>	<u>262</u>	<u>(85,331)</u>

See accompanying notes to financial information.

:SP-34a

## EXHIBIT B

SPURWINK / RI  
STATEMENT OF REVENUES AND EXPENSES - ICF/MR'S  
CALENDAR YEAR 1997

<u>Account Description</u>	Seven Mile <u>Road</u>
<u>Revenues</u>	
State of Rhode Island	
Dept. of Human Services	
Room & Board	\$ 380,512
Social Security Income	8,298
	<hr/>
Total Revenues	\$ 388,810
<u>Expenses</u>	
Wages	\$ 201,135
Retirement	7,539
Health Insurance	26,635
Pharmacist	175
Occupational Therapist	2,549
Speech Therapist	2,805
Social Worker	3,150
Other - Dietician	875
- Psychiatrist	372
- Management Dev.	
Associates	14,191
Office Supplies	1,141
Telephone	808
Travel - Motor Vehicle	3,182
Travel- Employees	397
Conventions, Meetings	448
Adv.-Help Wanted	235
Organizational Dues	1,271
Computerized Payroll & Data Processing	503
Accounting & Auditing	1,007
Payroll Taxes	21,260
Insurance	6,622
HCPA-Provider Tax	25,400
Real Estate -	
Personal Prop. Taxes	6,256
Interest	16,669
Rent/Lease of Building	7,648
Lease of Equipment	106
Lease of Vehicles	4,786
Building Depreciation	7,376
Equipment Depreciation	446
Fuel	1,102
Electricity	2,124
Water & Sewerage	255
Purchased Services & Repairs	5,687
Food & Kitchen Supplies	6,155
Linen, Laundry Supplies & Service	274
Housekeeping Supplies	365
Pharmacy Supplies	1,623
Recreational Supplies	156
	<hr/>
Subtotal	382,728
Allocation of Administrative Expenses	6,344
	<hr/>
Total Expenses	\$ 389,072

See accompanying notes to financial information.

SPURWINK / RI  
STATEMENT OF REVENUES AND EXPENSES - RESIDENTIAL WAIVER PROGRAM  
CALENDAR YEAR 1997

Account Description	Combined	Total Waiver Program State	Client	Brook Drive State	Brook Drive Client	South County Trail State	South County Trail Client	Crompton Road State	Crompton Road Client
<b>Revenues</b>									
State of Rhode Island									
Department of MHRH	\$ 3,471,302	3,471,302	-	677,025		664,575		674,788	
Social Security Income	123,679	-	123,679		24,689		24,421		21,246
Clients Excess Earnings	3,449	-	3,449				621		1,522
Interest Income	1,296	-	1,296						
Rental Income	2,790	-	2,790						
PRB Distribution	66,753	66,753	-	9,537		9,536		9,536	
Grant - Ocean State									
Charities	2,100	-	2,100		2,100				
PRC - Reimbursements	14,081	14,081	-	4,000		2,000		4,000	
<b>Total Revenues</b>	<b>\$ 3,685,450</b>	<b>3,552,136</b>	<b>133,314</b>	<b>690,562</b>	<b>26,789</b>	<b>676,111</b>	<b>25,042</b>	<b>688,324</b>	<b>22,768</b>
<b>Expenses</b>									
Wages	\$ 2,023,880	2,023,880	-	258,668		384,724		463,327	
Retirement	77,933	77,933	-	19,413		14,562		16,880	
Health Insurance	291,471	291,471	-	44,982		60,435		85,283	
Nurse	4,795	4,795	-					1,155	
Physical Therapist	731	731	-	731					
Occupational Therapist	6,459	6,459	-	1,733		338		3,173	
Speech Therapist	14,115	14,115	-	4,528				6,554	
Psychologist	1,800	1,800	-						
Social Worker	6,015	6,015	-					3,300	
Other - Dietician	5,741	5,741	-	1,260		1,208		1,488	
Psychiatrist	3,828	3,828	-	1,086				1,342	
Mangement -									
Design Associates	159,324	159,324	-	30,205		30,184		30,198	
Office Supplies	16,580	16,580	-	2,700		2,892		3,015	
Telephone	7,921	7,921	-	946		1,040		1,337	
Travel-Motor Vehicle	34,625	34,625	-	6,619		5,523		3,002	
Travel-Employees	40,812	40,812	-	1,346		9,276		6,099	
Conventions, Meetings	5,091	5,091	-	817		866		1,333	
Adv.-Help Wanted	1,220	1,220	-	1,546		1,571		1,410	
Organizational Dues	11,296	11,296	-						
Computerized Payroll &									
Data Processing	5,494	5,494	-	1,002		1,002		1,000	
Accounting & Auditing	6,895	6,895	-	1,317		1,317		1,317	
Payroll Taxes	200,780	200,780	-	27,791		37,161		45,406	



SPURWINK / RI  
STATEMENT OF REVENUES AND EXPENSES - RESIDENTIAL WAIVER PROGRAM  
CALENDAR YEAR 1997

Account Description	Combined	Total Waiver Program		Brook Drive		South County Trail		Crompton Road	
		State	Client	State	Client	State	Client	State	Client
Insurance	48,634	48,634	-	8,189		10,103		11,027	
Clothing Allowance -									
Clients	825	-	825		124		124		124
Miscellaneous	105	-	105						
HCPA-Provider Tax	205,662	205,662	-	43,245		39,168		41,294	
Real Estate-									
Personal Prop. Taxes	6,341	-	6,341						
Interest	15,916	2,038	13,878	499		497		499	
Rent/Lease of Building	36,226	-	36,226		1		1		1
Lease of Equipment	6,784	6,784	-	2,423		689		742	
Lease of Vehicles	43,590	43,590	-	8,164		8,884		8,779	
Building Depreciation	6,981	-	6,981				571		
Equipment Depreciation	5,463	5,463		892		992		892	
Fuel	5,120	-	5,120				1,483		
Electricity	21,127	-	21,127		5,692		2,774		6,184
Water & Sewerage	1,612	-	1,612				539		646
Purchased Services									
& Repairs	22,652	-	22,652		3,632		3,430		4,430
Food & Kitchen Supplies	50,218	-	50,218		6,838		10,478		10,151
& Service	1,852	-	1,852		749		245		386
Housekeeping Supplies	6,584	-	6,584		652		673		2,062
Pharmacy Supplies	7,180	-	7,180		513		609		1,248
Recreational Supplies	8,096	-	8,096		498		5,810		347
Adult Day Program	37,436	37,436		1,280					
Subtotal	\$ 3,465,210	3,276,413	188,797	471,382	18,699	612,432	26,737	739,852	25,579
Allocation of Administrative Expenses	66,056	66,056	-	8,442		12,557		15,122	
Total Expenses	\$ 3,531,266	3,342,469	188,797	479,824	18,699	624,989	26,737	754,974	25,579
Less Restricted Revenue	68,853	66,753	2,100	9,537	2,100	9,536		9,536	
Excess (Deficiency) of Revenues over Expense	\$ 85,331	142,914	(57,583)	201,201	5,990	41,586	(1,695)	(76,186)	(2,811)

See accompanying notes to financial information.

SPURWINK / RI  
STATEMENT OF REVENUES AND EXPENSES - RESIDENTIAL WAIVER PROGRAM  
CALENDAR YEAR 1997

Account Description	Seven Mile Road		Plainfield Pike		Bea Drive		Vine Street	
	State	Client	State	Client	State	Client	State	Client
<b>Revenues</b>								
State of Rhode Island								
Department of MHRH	\$ 341,541		588,268		510,359		14,746	
Social Security Income		13,063		23,249		17,011		
Clients Excess Earnings				893		413		
Interest Income		1,296						
Rental Income				2,790				
PRB Distribution	9,536		9,536		9,536		9,536	
Grant-Ocean State								
Charities								
PRC-Reimbursements			1,000		3,081			
<b>Total Revenues</b>	<b>\$ 351,077</b>	<b>14,359</b>	<b>598,804</b>	<b>26,932</b>	<b>522,976</b>	<b>17,424</b>	<b>24,282</b>	<b>-</b>
<b>Expenses</b>								
Wages	\$ 195,752		415,164		296,181		10,064	
Retirement	4,830		13,629		8,619			
Health Insurance	28,031		49,881		22,400		459	
Nurse					3,640			
Physical Therapist								
Occupational Therapist	1,215							
Speech Therapist	2,468		565					
Psychologist			1,800					
Social Worker	2,415				300			
Other - Dietician	700		1,050		35			
Psychiatrist	800		300		300			
Management -								
Design Associates	14,022		28,761		21,739		4,215	
Office Supplies	1,322		3,497		2,933		221	
Telephone	411		2,381		1,675		131	
Travel-Motor Vehicle	5,842		10,611		3,025		3	
Travel-Employees	355		15,707		7,981		48	
Conventions, Meetings	368		776		745		186	
Adv.-Help Wanted	110		228		567			
Organizational Dues	440		4,198		2,069		62	
Computerized Payroll &								
Data Processing	475		978		919		118	
Accounting & Auditing	310		1,317		1,317			
Payroll Taxes	18,655		42,492		28,238		1,037	

SPURWINK / RI  
STATEMENT OF REVENUES AND EXPENSES - RESIDENTIAL WAIVER PROGRAM  
CALENDAR YEAR 1997

Account Description	Seven Mile Road		Plainfield Pike		Bea Drive		Vine Street	
	State	Client	State	Client	State	Client	State	Client
Expenses - Cont'd								
Insurance	5,860		7,649		5,641		165	
Clothing Allowance- Clients		124		124		205		
Miscellaneous				105				
HCPA-Provider Tax	24,783		31,726		25,446			
Real Estate- Personal Prop. Taxes				3,509		2,832		
Interest	179		316			13,878	48	
Rent/Lease of Building		22,287		13,411				525
Lease of Equipment	260		1,383		1,266		21	
Lease of Vehicles	4,847		7,733		5,183			
Building Depreciation		1,327		1,755		3,328		
Equipment Depreciation	447		1,348		892			
Fuel		764		1,471		1,402		
Electricity		1,590		2,695		2,178		14
Water & Sewerage		120		21		286		
Purchased Services & Repairs		2,481		3,796		4,883		
Food & Kitchen Supplies		4,508		10,925		7,233		85
& Service		224		207		41		
Housekeeping Supplies		401		1,329		1,467		
Pharmacy Supplies		2,489		1,294		1,027		
Recreational Supplies		230		694		517		
Adult Day Program					36,156			
Subtotal	\$ 314,897	36,545	643,490	41,336	477,267	39,277	16,778	624
Allocation of Administrative Expenses	6,389		13,551		9,667		328	
Total Expenses	\$ 321,286	36,545	657,041	41,336	486,934	39,277	17,106	624
Less Restricted Revenue	9,536		9,536		9,536		9,536	
Excess (Deficiency) of Revenues over Expense	\$ 20,255	(22,186)	(67,773)	(14,404)	26,506	(21,853)	(2,360)	(624)

See accompanying notes to financial information.

SPURWINK / RI  
CALENDAR YEAR 1997

NOTES TO FINANCIAL INFORMATION

Note 1 - Significant Accounting Policies

Basis of Accounting

The financial statements are presented on the accrual basis of accounting, which is in compliance with MHRH's "Prudent Person Rule" and DHS's Principles of Reimbursement HIM-15. Under this basis, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred.

Depreciation

Depreciation costs are based on the straight-line method which is in compliance with MHRH's "Prudent Person Rule" and DHS's Principles of Reimbursement HIM-15.

Note 2 - Excess (Deficiency) of Revenue Over Expenses

The State's method of reimbursement for ICF/MR facilities is based solely on audited expenses and, therefore, does not take into account the excess or deficiency of revenue over expenses.

DEPARTMENT OF HUMAN SERVICES  
SPURWINK / RI  
INTERMEDIATE CARE FACILITIES FOR THE MENTALLY RETARDED  
SCHEDULE OF NET SETTLEMENT  
CALENDAR YEAR 1997

<u>Per Diem Rate</u>	<u>Total</u>	<u>Seven Mile Road</u>	<u>Brook Drive</u>	<u>South County Trail</u>	<u>Crompton Road</u>
Total Audited Expenses	\$ 389,072.00	389,072			
Total Days		724			
Audited Per Diem Rate		537.39			
Clothing Per Diem		1.00			
Total Per Diem		538.39			
<u>Restrospective Settlement</u>					
Desk Audit Rate		538.03			
Field Audit Rate		538.39			
Increase (Decrease) to Rate Paid		0.36			
Paid State Days		724.00			
Amount Due to (From) DHS for 1997	(260.64)	(260.64)	-	-	-
Total Restrospective Settlement Due to (From) DHS for 1997	(260.64)	(260.64)			
Amount Due to (From) DHS for Prior Years (1993-1996)	12,635.00	5,322.00	944.00	2,944.00	3,425.00
Total (1993-1996)	12,635.00	5,322.00	944.00	2,944.00	3,425.00
Total Retrospective Settlement Due To or (From) DHS	\$ 12,374.36	5,061.36	944.00	2,944.00	3,425.00

DEPARTMENT OF HUMAN SERVICES  
SPURWINK / RI  
INTERMEDIATE CARE FACILITIES FOR THE MENTALLY RETARDED  
DETAIL OF AUDIT ADJUSTMENTS  
CALENDAR YEAR 1997

	<u>Total</u>	<u>Seven Mile Road</u>	<u>Brook Drive</u>	<u>South County Trail</u>	<u>Crompton Road</u>
<b>Revenues</b>					
Total Revenue Adjustments	\$ <u>(42,868)</u>	<u>(42,868)</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expenses</b>					
Equipment Depreciation					
To adjust to schedule	\$ 446	446			
Building Depreciation					
To adjust to schedule	1,328	1,328			
Administrative Allocation					
To adjust to revised allocation	<u>(1,511)</u>	<u>(1,511)</u>			
Total Expense Adjustments	\$ <u>263</u>	<u>263</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Prior Year Adjustments</b>					
Administrative Allocation	(21,690)	(8,056)	(3,098)	(4,958)	(5,578)
Building Depreciation	2,757	2,591	-	166	-
Equipment Depreciation	<u>6,298</u>	<u>143</u>	<u>2,154</u>	<u>1,848</u>	<u>2,153</u>
Total Prior Year Adjustment to Expenses	\$ <u>(12,635)</u>	<u>(5,322)</u>	<u>(944)</u>	<u>(2,944)</u>	<u>(3,425)</u>

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SPURWINK / RI  
CALENDAR YEAR 1997

FINDINGS AND RECOMMENDATIONS

Status of Prior Audit Recommendations Calendar Years 1989 - 1992

Recommendation for DHS

1. The amount of \$6,015.13 should be recovered from Spurwink / RI, by the Department of Human Services in accordance with its current funding policy.

Complied.

SPURWINK / RI  
CALENDAR YEAR 1997

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

DHS Programs

Amounts Due To/(From) DHS

As a result of our examination, it has been determined that a net amount of \$12,372.00 is due to the Department of Human Services from Spurwink / RI, and is summarized as follows:

<u>1996</u>	
ICF/MR Per Diem Rate	\$ (263.00)
<u>Prior Years</u>	
ICF/MR Per Diem Rates	\$ <u>12,635.00</u>
Total due to DHS	\$ <u>12,372.00</u>

The above settlement by facility is as follows:

<u>Facility</u>	<u>Total</u>	<u>Current Year</u>		<u>Prior Years</u>		
		<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>
Brook Drive	\$ 944		3,136	(1,568)	(698)	74
S. County Trail	2,944		5,136	(1,568)	(698)	74
Crompton	3,425		5,616	(1,567)	(698)	74
Seven Mile Rd	<u>5,059</u>	<u>(263)</u>	<u>7,514</u>	<u>(1,567)</u>	<u>(698)</u>	<u>73</u>
Total Due to DHS	\$ <u>12,372</u>	<u>(263)</u>	<u>21,402</u>	<u>(6,270)</u>	<u>(2,792)</u>	<u>295</u>

Recommendation

1. The amount of \$12,372 should be recovered from Spurwink / RI, by the Department of Human Services in accordance with its current funding policy.



### Review of Client Funds

Our review disclosed that Spurwink / RI Residential Program client funds were in compliance with the requirements of the funding source.

### MHRH Programs

#### Determination of Excess Funding

The Department of MHRH and the Providers have agreed "that in each particular contract year, any surplus incurred by the Provider in operating one or more of its programs, wherein funding for same is received by the Department of Mental Health, Retardation and Hospitals and/or the Department of Human Services, shall be used/can be used by the Provider to offset any losses incurred by the Provider in one or more of the programs above-referred." Any net surpluses by each particular contract year incurred by the Provider "shall be returned to the State of Rhode Island in such manner as it may prescribe, or shall be used by the Provider in a manner which has been approved by written agreement with the State of Rhode Island." This policy is applicable to all MHRH contracts beginning with calendar year 1986.

As a result of our audit it has been determined that there are excess funds in the amount of \$16,303 due to MHRH based upon the aforementioned policy and the individual contract requirements.

#### Waiver Residential Program

The Waiver contract for the fiscal year ended June 30, 1996 stated that "if the audit or calendar year cost report reveals total payment to the Provider under the Agreement is greater than one hundred five (105%) percent of total allowable cost for the above specified programs covered by this agreement the parties agree that the excess funding over one hundred five (105%) percent will be returned to the Department by the Provider." This provision was also in the contract for 1996.

<u>Period</u>	<u>Total MHRH Payments to Provider</u>	<u>105% of Allowable Expenses</u>	<u>Amount Due to MHRH</u>
1997	\$ 3,485,383	\$ 3,509,592	-0-
1996	795,795	779,492	16,303

### Recommendation

2. The amount of \$16,303 should be recovered from Spurwink / RI, by the Department of MHRH as excess funding or be reprogrammed by the Provider upon written agreement with MHRH in accordance with the applicable contract provisions and policy.

### Related Party Consultant Agreement

The provider has a consulting agreement with Management Design Associates (MDA). MDA is a corporation consisting of three members of the Provider's Board of Directors, including the President, who is also the Executive Director. The consulting agreement was entered into in 1993 for the purpose of "Providing management, administrative, and operational support to the Provider" and is signed by the same three individuals. The President/Executive Director of the provider, who is also a principal of MDA, had signed the agreement for the Provider.

The agreement lists a general description of services that will be provided by MDA with six areas of the provider's operations. The agreement does not indicate any fee amount, or fee schedules, or what supporting documentation is to be submitted as part of the billings for payment. Monthly billing invoices from MDA show no detail or indications of services provided such as work performed, work products, hours spent, etc. The monthly billing does indicate that the fee being charged is based on five percent of the Provider's base budget. This five-percent fee structure is not indicated in the original agreement. During 1997, payments to MDA were being made by automatic withdrawal from the Provider's bank account.

The Provider allocates the cost of the MDA services to its various programs, including programs funded by MHRH. Total MDA billings for 1997 were \$360,318 with \$173,515 having been allocated to MHRH programs.

The direct relationship among the three board members, MDA, and the Provider, and the roles of the three individuals in the Provider's organizational structure coupled with the lack of a current contract with MDA to detail what services are to be provided, has weakened controls for monitoring these related party transactions.

### Recommendations

3. MHRH should review the agreement and current arrangement between the provider and MDA to determine if the services between the Provider and MDA to determine if the services being provided are reasonable and allowable based on the contracts between MHRH and the Provider.
4. If it is determined that the services are allowable, MHRH should ensure that the provider has adequate controls in place to monitor and document services provided by and amounts paid to related parties.

### Personal Services Arrangement

During 1997, the Executive Director of the Provider ceased being an employee of the Provider at which point in time the position was refilled by the same individual through a personal services arrangement. The Provider entered into an arrangement with MDA (See Related Party Consulting Agreement above) to receive the services of the Executive Director. There is no written agreement or contract regarding this arrangement between the Provider and MDA. It is presumed that the fees for these specific services are part of the \$360,318 paid to MDA during 1997 under a previous consulting/support agreement (See previous finding). Under the arrangement, MDA reimburses the Provider for the independent contractor's health insurance and vehicle lease expenses paid out of pocket by the Provider.

### Recommendation

5. MHRH should review the personal service arrangement between the Provider and MDA to determine if it is allowable based on the contracts between MHRH and the Provider.